



**STEPS, INC.**

**Financial Statements  
For the years ended  
June 30, 2022 and 2021**

Not-for-Profit Corporation  
501c(3)





## STEPS, INC.

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## Report of Independent Auditors

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

### Opinion

We have audited the accompanying financial statements of STEPS, Inc. (the "Corporation"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STEPS, Inc. as of June 30, 2022 and 2021, and the results of its activities and changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of STEPS, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about STEPS, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.





In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of STEPS, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about STEPS, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Matters – Supplementary and Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2, U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2023, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEPS, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STEP Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davidson Doyle &amp; Hilton, LLP".

Lynchburg, Virginia  
January 6, 2023







**STEPS, INC.**  
**Statements of Financial Position**  
**June 30, 2022 and 2021**

	<b>Assets</b>	
	<u>2022</u>	<u>2021</u>
<b>Current assets</b>		
Cash and equivalents	\$ 260,408	\$ 389,763
Accounts receivable	33,627	40,427
Grants receivable	603,102	279,007
Pledges receivable	200,000	-
Employee retention tax credit receivable	506,003	-
Prepaid expenses	50,646	69,043
<b>Total current assets</b>	<u>1,653,786</u>	<u>778,240</u>
<b>Property and equipment</b>		
Land	15,852	15,852
Building	987,292	987,292
Leasehold improvements	1,570,330	1,424,471
Furniture and equipment	284,328	245,858
Classroom furniture	156,993	145,787
Playground equipment	168,518	158,578
Transportation	1,138,047	1,005,605
	<u>4,321,360</u>	<u>3,983,443</u>
Less accumulated depreciation	<u>2,586,490</u>	<u>2,274,665</u>
<b>Total property and equipment</b>	<u>1,734,870</u>	<u>1,708,778</u>
<b>Total assets</b>	<u>\$ 3,388,656</u>	<u>\$ 2,487,018</u>
	<b>Liabilities and Net Assets</b>	
<b>Current liabilities</b>		
Accounts payable	\$ 211,778	\$ 127,815
Current maturities of notes payable	66,009	302,219
Unearned revenue	183,953	-
Accrued compensation expenses and other liabilities	212,311	180,751
<b>Total current liabilities</b>	<u>674,051</u>	<u>610,785</u>
<b>Long-term liabilities</b>		
Line of credit	90,000	-
Long-term debt, net of current maturities and unamortized debt issuance costs	178,127	-
<b>Total long-term liabilities</b>	<u>268,127</u>	<u>-</u>
<b>Total liabilities</b>	<u>942,178</u>	<u>610,785</u>
<b>Net assets</b>		
Without donor restrictions	1,786,979	1,876,233
With donor restrictions	659,499	-
<b>Total net assets</b>	<u>2,446,478</u>	<u>1,876,233</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,388,656</u>	<u>\$ 2,487,018</u>



**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2022**



	<b>2022</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 165,256	\$ 6,340,518	\$ 6,505,774
Business services	372,934	-	372,934
Contributions	106,624	250,474	357,098
In-kind revenue	305,845	-	305,845
Special events, net of expense of \$3,624	13,897	-	13,897
Miscellaneous revenue	5,140	-	5,140
Employee retention tax credit refund	-	506,003	506,003
Gain on sale of assets	1,500	-	1,500
Interest income	42	-	42
	971,238	7,096,995	8,068,233
Assets released from restrictions	6,437,496	( 6,437,496 )	-
<b>Total revenues, gains, and other support</b>	7,408,734	659,499	8,068,233
<b>Operating expenses</b>			
Program services	6,184,839	-	6,184,839
Administrative and general	923,654	-	923,654
Fundraising	60,541	-	60,541
	7,169,034	-	7,169,034
<b>Total operating expenses</b>	7,169,034	-	7,169,034
<b>Increase in net operating assets</b>	239,700	659,499	899,199
<b>Other expenses</b>			
Depreciation	328,954	-	328,954
	328,954	-	328,954
<b>Total other expenses</b>	328,954	-	328,954
<b>Increase (decrease) in net assets</b>	( 89,254 )	659,499	570,245
<b>Net assets at beginning of year</b>	1,876,233	-	1,876,233
<b>Net assets at end of year</b>	\$ 1,786,979	\$ 659,499	\$ 2,446,478





**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2021**

	<b>2021</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 164,974	\$ 5,750,877	\$ 5,915,851
Business services	308,639	-	308,639
In-kind revenue	277,995	-	277,995
Contributions	178,657	-	178,657
Miscellaneous	1,908	-	1,908
Special events, net of expense of \$60	6,405	-	6,405
	<u>938,578</u>	<u>5,750,877</u>	<u>6,689,455</u>
Assets released from restrictions	<u>6,021,710</u>	( <u>6,021,710</u> )	<u>-</u>
<b>Total revenues, gains (losses), and other support</b>	<u>6,960,288</u>	( <u>270,833</u> )	<u>6,689,455</u>
<b>Operating expenses</b>			
Program services	5,503,456	-	5,503,456
Administrative and general	827,118	-	827,118
Fundraising	13,855	-	13,855
	<u>6,344,429</u>	<u>-</u>	<u>6,344,429</u>
<b>Total operating expenses</b>	<u>6,344,429</u>	<u>-</u>	<u>6,344,429</u>
<b>Increase (decrease) in net operating assets</b>	615,859	( 270,833 )	345,026
<b>Other expenses</b>			
Depreciation	<u>321,106</u>	<u>-</u>	<u>321,106</u>
<b>Total other expenses</b>	<u>321,106</u>	<u>-</u>	<u>321,106</u>
<b>Increase (decrease) in net assets</b>	294,753	( 270,833 )	23,920
<b>Net assets at beginning of year</b>	<u>1,581,480</u>	<u>270,833</u>	<u>1,852,313</u>
<b>Net assets at end of year</b>	\$ <u>1,876,233</u>	\$ <u>-</u>	\$ <u>1,876,233</u>





STEPS, INC.  
Statement of Functional Expenses  
Year ended June 30, 2022

	2022			
	Program Services	Administrative and General	Fundraising	Total
Salaries and wages	\$ 2,834,635	\$ 429,519	\$ 22,159	\$ 3,286,313
Client assistance	1,265,880	350	741	1,266,971
Office supplies	350,010	8,938	-	358,948
Payroll taxes	301,098	52,115	2,838	356,051
Rent	334,478	-	-	334,478
Utilities	181,173	103,172	-	284,345
Professional services	179,192	66,264	-	245,456
Employee benefits	193,908	23,821	1,749	219,478
Insurance	105,188	59,901	-	165,089
Conferences	90,496	51,535	-	142,031
Repairs and maintenance	81,227	46,257	-	127,484
Auto expenses	109,444	2,182	-	111,626
Telephone	70,259	40,010	-	110,269
Miscellaneous	45,354	25,848	37	71,239
Marketing and seminars	-	-	33,017	33,017
Printing	12,620	7,187	-	19,807
Interest	18,367	-	-	18,367
Dues and membership fees	11,510	6,555	-	18,065
	\$ 6,184,839	\$ 923,654	\$ 60,541	\$ 7,169,034
Total expenses	\$ 6,184,839	\$ 923,654	\$ 60,541	\$ 7,169,034







**STEPS, INC.**  
**Statement of Functional Expenses**  
**Year ended June 30, 2021**

	<b>2021</b>			
	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 2,573,436	\$ 412,034	\$ 11,723	\$ 2,997,193
Client assistance	1,229,706	-	-	1,229,706
Payroll taxes	287,995	51,229	1,332	340,556
Utilities	189,280	107,789	-	297,069
Rent	276,347	-	-	276,347
Office supplies	270,249	4,214	-	274,463
Employee benefits	172,967	30,768	800	204,535
Repairs and maintenance	93,604	53,304	-	146,908
Insurance	77,510	44,139	-	121,649
Professional services	80,439	30,645	-	111,084
Telephone	63,676	36,261	-	99,937
Auto expenses	72,212	4,889	-	77,101
Conferences	42,554	24,233	-	66,787
Miscellaneous	29,125	16,586	-	45,711
Interest	21,198	-	-	21,198
Dues and membership fees	13,484	7,679	-	21,163
Printing	5,876	3,348	-	9,224
Marketing and seminars	3,798	-	-	3,798
	<u>5,503,456</u>	<u>827,118</u>	<u>13,855</u>	<u>6,344,429</u>
Total expenses	\$ <u>5,503,456</u>	\$ <u>827,118</u>	\$ <u>13,855</u>	\$ <u>6,344,429</u>





**STEPS, INC.**  
**Statements of Cash Flows**  
**Years ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 570,245	\$ 23,920
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	328,954	321,106
Amortization, included in interest expense	1,446	1,962
Gain on sale of fixed assets	( 1,500 )	( 900 )
Forgiveness of PPP loan	-	( 75,000 )
(Increase) decrease in operating assets:		
Accounts receivable	( 6,800 )	( 13,480 )
Pledges receivable	( 200,000 )	-
Employee retention tax credit receivable	( 506,003 )	-
Grants receivable	( 324,095 )	36,100
Prepaid expenses	18,397	( 9,501 )
Increase (decrease) in operating liabilities:		
Accounts payable	83,963	( 33,458 )
Unearned revenue	183,953	-
Accrued payroll and taxes	31,560	56,265
<b>Net cash provided by operating activities</b>	<u>193,720</u>	<u>307,014</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	( 355,046 )	( 101,481 )
Proceeds on sale of fixed assets	<u>1,500</u>	<u>900</u>
<b>Net cash used in financing activities</b>	<u>( 353,546 )</u>	<u>( 100,581 )</u>
<b>Cash flows from financing activities</b>		
Proceeds on line of credit	90,000	-
Principal payments on notes payable	( 53,402 )	( 62,596 )
Loan costs incurred	<u>( 6,127 )</u>	<u>-</u>
<b>Net cash provided by (used in) financing activities</b>	<u>30,471</u>	<u>( 62,596 )</u>
<b>Net increase (decrease) in cash</b>	( 129,355 )	143,837
<b>Cash at beginning of year</b>	<u>389,763</u>	<u>245,926</u>
<b>Cash at end of year</b>	\$ <u>260,408</u>	\$ <u>389,763</u>
<b>Composed of:</b>		
Cash, with donor restrictions	48,374	-
Cash, without donor restrictions	212,034	389,763
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ <u>18,367</u>	\$ <u>21,198</u>





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 1 – Nature of the corporation and summary of significant accounting policies**

**Nature of the Corporation**

STEPS, Inc. (the “Corporation”) is an extremely diversified Community Action Agency which delivers services to those in need. Services are delivered under Four Pillars of Service: *Workforce Development* – STEPS provides job training and employment opportunities to citizens living with disabilities, individuals who want to exit the welfare system and senior citizens living below the poverty level; *Economic Development* - STEPS is a major employer in our region and in addition operates two (2) commercial lines of business: secure document shredding and operation of a regional recycling center; *Housing* - STEPS provides services to alleviate and/or prevent homelessness and serves as a partner to Dominion Power in their EnergyShare program, meeting heating and cooling needs; *Education* - STEPS works with students with disabilities who are transitioning from the public education system and operates Head Start and Early Head Start services.

**Basis of financial statement presentation**

The Corporation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Revenue recognition**

Income is derived from several activities including business services which includes job training and transportation, grants, contributions, and sales of manufactured products. Service and product revenue are recognized as the obligation performance is met. Contributions and grants received are recorded depending on the absence or existence and nature of any donor restrictions.

The Corporation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions of which they depend have been met.

The Corporation accounts for contributions in accordance with FASB ASC 958-605, Accounting for Contributions Received and Contributions Made. In accordance with FASB ASC 958-605, contributions received are recorded as with or without donor restricted support depending on the existence and/or nature of any donor restrictions. The Corporation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Gifts of property and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions*- Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions*- Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that the resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.







STEPS, INC.  
Notes to Financial Statements  
June 30, 2022 and 2021

**Note 1 – Nature of the corporation and summary of significant accounting policies (continued)**

**Promises to give**

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Accounts receivable**

Accounts receivable consist of trade accounts receivable and are stated at invoiced amount. Credit is extended to customers after an evaluation of the customer's financial condition and generally collateral is not required. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense for the years ended June 30, 2022 and 2021 are \$-0- and \$-0-.

**Property and equipment**

Property and equipment acquisitions are recorded at cost, or fair value if contributed. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Building	15-39 years
Leasehold improvements	15 years
Furniture and equipment	5-10 years

Expenses for maintenance and repairs are charged against revenues in the year the cost is incurred. Expenditures for additions and major improvements are capitalized and depreciated. The Corporation capitalizes all property and equipment with a cost of \$2,500 or more. Cost and accumulated depreciation are removed from the accounts for property sold or retired, and any resulting gain or loss is included in the statement of activities.

**Donated services**

Amounts have been reflected in the financial statements for donated services. The Corporation generally pays for services requiring specific expertise, but others are donated. However, many individuals volunteer their time and perform a variety of tasks that assist the Corporation with specific assistance programs, campaign solicitations, and various committee assignments. These volunteer hours are not reflected in the financial statements.

**Performance obligation**

For performance obligations related to the providing of services, control transfers to the customer at a point in time in which the service is provided.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income taxes**

No provision for income taxes has been made in the financial statements because the Corporation is a not-for-profit corporation as described in Section 501 (c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. The Corporation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC.



**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**



**Note 1 – Nature of the corporation and summary of significant accounting policies (continued)**

**Income taxes (continued)**

The Financial Accounting Standards Board ASC 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Corporation's financial condition, results of operations or cash flows. Accordingly, the Corporation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2022 and 2021. Fiscal years ending on or after June 30, 2019 remain subject to examination by federal and state tax authorities.

**Functional expenses**

The costs of providing the Corporation's various programs and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The functional expenses of the various programs and supporting services include those costs directly attributable to the specific program as well as an allocation of supporting service expenditures, which, in the estimation of management, are indirectly attributable to the programs.

**Advertising**

The Corporation expenses advertising costs as incurred. Such expenses are shown in the statements of activities.

**Shipping and handling revenue, fees and costs**

The Corporation classifies amounts billed for shipping and handling as revenue in accordance with FASB ASC 605-45-50-2, *Shipping and Handling Fees and Costs*. Shipping and handling fees and costs are included in operating expenses.

**New accounting pronouncements**

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2021. Early application of the amendments in the ASU is permitted. The update is intended to increase transparency and comparability among Companies by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company has not adopted the new ASU to date.

In September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The amendments are effective for annual periods beginning after June 15, 2021. The amendments are to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure.

**Note 2 - Cash balances**

The Corporation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) insured limit is currently \$250,000. During the year, the Corporation from time to time may have had amounts on deposit in excess of the federally insured limits. Management does not feel there is a risk of loss with these deposits.

For purposes of the Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**



**Note 3 - Property and depreciation**

A summary of depreciation expense for the year ended June 30, 2022 and accumulated depreciation at June 30, 2022 is as follows:

	Accumulated Depreciation 2022	Depreciation Expense 2022
Buildings	\$ 822,037	\$ 18,054
Furniture and equipment	177,684	41,743
Transportation	886,373	132,977
Classroom furniture and equipment	120,633	14,505
Playground equipment	97,209	20,226
Leasehold improvements	482,554	101,449
	<u>\$ 2,586,490</u>	<u>\$ 328,954</u>

A summary of depreciation expense for the year ended June 30, 2021 and accumulated depreciation at June 30, 2021 is as follows:

	Accumulated Depreciation 2021	Depreciation Expense 2021
Buildings	\$ 803,983	\$ 25,928
Furniture and equipment	135,941	29,781
Transportation	770,524	117,749
Classroom furniture and equipment	106,128	29,158
Playground equipment	76,983	23,790
Leasehold improvements	381,106	94,700
	<u>\$ 2,274,665</u>	<u>\$ 321,106</u>

Depreciation expense for the year ended June 30, 2022 and 2021, was \$328,954 and \$321,106, respectively.

**Note 4 – Notes payable**

The Corporation's notes payable at June 30, 2022 and 2021 were as follows:

	Maturity	2022	2021
Union First loan, payable \$6,497 monthly including interest at 4.5% with balance due upon maturity, secured by property	2021	\$ -	\$ 302,546
Atlantic Union loan, payable \$6,242 monthly including interest at 4% with balance due upon maturity, secured by property	2026	249,144	-
		<u>249,144</u>	<u>302,546</u>
Unamortized debt issuance costs		-	( 327 )
Less portion due currently		<u>66,009</u>	<u>302,219</u>
Long-term debt		183,135	-
Unamortized debt issuance costs		( 5,008 )	-
Net Long-term debt		<u>\$ 178,127</u>	<u>\$ -</u>



**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**



**Note 4 – Notes payable (continued)**

Aggregate principal payments on long-term debt are scheduled as follows:

Year Ending	Amount
2023	\$ 66,009
2024	68,720
2025	71,575
2026	42,840
2027	-
Thereafter	-
	<b>\$ 249,144</b>

**Note 5 – Line of Credit**

The Corporation maintains a line of credit with a bank that has a borrowing limit of \$90,000. The line of credit bears an interest rate of prime plus 1.69% and is secured by other accounts. The agreement expires on September 19, 2023. As of June 30, 2022 and 2021, there was a balance of \$90,000 and \$-0- on the line of credit.

**Note 6 – Operating leases**

The Corporation leases equipment and real estate under operating lease agreements. The lease agreements expire at various dates. Rental expenses for these leases totaled \$126,984 and \$276,347 for the years ended June 30, 2022 and 2021. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2022 are as follows:

Year Ending	Amount
2023	\$ 99,266
2024	99,266
2025	93,766
2026	92,666
2027	93,901
Thereafter	524,195
	<b>\$ 1,003,060</b>

**Note 7 – In-kind contributions**

The Corporation received various donated goods and services during the year. In-kind contributions totaled \$305,845 and \$277,995 for the years ended June 30, 2022 and 2021 and consisted of the following:

	2022	2021
Space / rent	\$ 207,494	\$ 178,200
Professional services	65,118	59,991
Education / materials	32,296	18,494
Auto (mileage)	768	800
Other	169	20,510
	<b>\$ 305,845</b>	<b>\$ 277,995</b>

The Corporation entered into several lease agreements for office space for which no rental payments were required. A third-party appraisal of the market value of such office space was performed to determine the fair market value of the donated space.

Contributed services are recognized as in-kind revenues at their estimated fair value if they require specialized skills that would need to be purchased if they were not donated. The Corporation receives donated health screenings, consultant services, college student education services, and services from the public schools that house some of the Head Start programs that include maintenance workers and food services workers.





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 7 – In-kind contributions (continued)**

The Corporation receives contributed educational materials, some that are free and others that are discounted. They are valued at the difference between the amount paid and the amount the materials would cost if they needed to be purchased in full.

**Note 8 – Donor restricted net assets**

The Corporation received grant revenue from several federal and state agencies as well as contributions and receivables for specific programs. These programs are accounted for in the financial statements as grant and contribution revenue with donor restrictions. Donor restricted net assets were restricted for the purpose of specific programs at year-end and consisted of the following assets:

		<u>2022</u>		<u>2021</u>
Pledges receivable	\$	200,000	\$	-
Employee retention tax credit receivable		411,125		-
Cash		<u>48,374</u>		<u>-</u>
	\$	<u>659,499</u>	\$	<u>-</u>

**Note 9 – Defined contribution retirement plan**

The Corporation has a 403(b) plan covering substantially all full time employees. The Corporation made no contributions to the Plan during the years ended June 30, 2022 and 2021.

**Note 10 - Major customers**

The Corporation derived 51% of its revenue in 2022 and 2021 from the U.S. Department of Health and Human Services related to the Head Start grant.

**Note 11 – Related parties**

During the years ended June 30, 2022 and 2021, the Corporation had a business relationship with vendors whose owners are members or have personal relationships with members of the Board of Directors and employees of the Corporation. During, 2022 and 2021, the Corporation made payments totaling \$71,699 and \$68,054 to these vendors for their business services.

**Note 12 – Liquidity and Availability**

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Corporation considers all expenditures related to its ongoing activities of the programs as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation aims to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Corporation's cash and shows positive cash generated by operations for fiscal year 2022.

As of June 30, 2022, the following financial assets could readily be made available to meet general expenditures:

Cash and cash equivalents		\$	212,034	
Accounts and grants receivable			1,142,732	
Less: accounts payable			<u>(211,778)</u>	
Cash flow available	\$		<u>1,142,988</u>	\$

**Note 13 - Subsequent Events**

The Corporation has evaluated subsequent events through January 6, 2023, the date the financial statements were available to be issued. No events requiring disclosure were noted.



**Supplemental Information**







**STEPS, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2022**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Head Start Program	93.600	03CH010185	\$ 625,658
Head Start Program	93.600	03CH012094	3,131,709
Head Start Program – COVID	93.600	03CH010185	67,819
Pass-through from:			
Virginia Department of Social Services			
Community Services Block Grant	93.569	2001VACSC3	282,178
Community Services Block Grant – CARES Act	93.569	2001VACSC3	277,319
Temporary Assistance for Needy Families	93.558	CVS-19-063-24	181,053
Temporary Assistance for Needy Families – CARES Act	93.558	2101VATANFC6	14,265
Whole Family Pilot Program	93.558	CVS-20-037-05	166,666
<b>Total U.S. Department of Health and Human Services</b>			<u>4,746,667</u>
<b>U.S. Department of Agriculture</b>			
Child and Adult Care Food Program	10.558		<u>151,922</u>
<b>Total U.S. Department of Agriculture</b>			<u>151,922</u>
<b>U.S. Department of Labor</b>			
Pass-through from:			
Virginia Department for Aging and Rehabilitative Services			
Senior Community Service Employment Program	17.235	A262-80045	221,647
South Central Workforce Development Board			
Workforce Innovation and Opportunity Act-Out of School Program	17.259	Youth 2019-01	281,584
<b>Total U.S. Department of Labor</b>			<u>503,231</u>
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through from:			
Virginia Department of Housing and Community Development			
COVID Homelessness Emergency Respond Program	14.231	E20DW510001	588,071
Virginia Homeless Solutions Program	14.231	E20DC510001	17,519
<b>Total U.S. Department of Housing and Urban Development</b>			<u>605,590</u>
<b>Total expenditures of federal awards</b>			<u>\$ 6,007,410</u>







STEPS, INC.  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2022

**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of STEPS, Inc. under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of STEPS, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of STEPS, Inc.

**Note 2 – Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Pass-through**

Pass-through entity identifying numbers are presented where available.

**Note 3 – Indirect Cost Rate**

The Corporation has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 4 – Subrecipients**

No awards were passed through to subrecipients.

**Note 5 – Relationship to Financial Statements**

Federal expenditures and revenues are reported in the Corporation’s financial statements as follows:

Grants	\$	6,505,774
Less: non-federal grants		<u>(498,364)</u>
	\$	<u>6,007,410</u>





**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of STEPS, Inc., which comprise the statement of financial position as of June 30, 2022 and the related statements of activities and cash flows and for the year ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered STEPS, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STEPS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of STEPS, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether STEPS, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Davidson Doyle + Hutton, LLP*

Lynchburg, Virginia  
January 6, 2023







**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

**Report on Compliance for Each Major Federal Program**

*Opinion on Each Major Federal Program*

We have audited STEPS, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of STEPS, Inc.'s major federal programs for the year ended June 30, 2022. STEPS, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, STEPS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of STEPS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of STEPS's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to STEPS's federal programs.

*Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on STEPS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting





material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about STEPS's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding STEPS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of STEPS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of STEPS's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on STEPS's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. STEPS's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### ***Report on Internal Control over Compliance***

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.







Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on STEPS's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. STEPS's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Davidson Doyle & Hill, LLC

Lynchburg, Virginia  
January 6, 2023





STEPS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2022

**Section I- Summary of Auditor’s Results**

**Financial Statements**

- The auditor's report expresses an unmodified opinion on whether the financial statements of STEPS, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
- During the audit of the financial statements, no material weaknesses or significant deficiencies in internal control are disclosed or reported.
- No instances of noncompliance material to the financial statements of STEPS, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

**Federal Awards**

- During the audit, no material weaknesses or significant deficiencies in internal control over major federal award programs are disclosed or reported.
- The auditor’s report on compliance for the major federal award programs for STEPS, Inc. expresses an unmodified opinion on all major federal programs.
- The audit disclosed one audit findings relating to the major program in accordance with Section 2 CFR section 200.516(a).
- Prior year audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this Schedule.

**Identification of Major Programs/Programs Tested**

- The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start Program

- The threshold used for distinguishing between Type A and Type B programs was \$750,000.
- The auditee was determined to be a low-risk auditee.

**Section II- Financial Statement Findings**

No reportable findings noted.





STEPS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2022

**Section III- Federal Award Findings and Questioned Costs**

2022-001 Head Start Program CFDA No. 93.600; Grant No. 03CH012094; Grant period: year ended July 31, 2022

*Criteria:* Grant recipients must submit financial information during the year using the SF-425, Federal Financial Report. The SF-429, Real Property Status Report must be filed annually based on the end of the budget period. The annual SF-429 is required for all grantees and should indicate whether the grantee has reportable real property. If they do, a separate SF-429A must be completed for each parcel of real property reported on the SF-429. STEPS has not fully complied with this requirement.

*Condition:* The SF-425 was filed for the first half of the year. There was no SF-425 filed for the second half of the year. The annual SF-429 was not filed for the current year.

*Cause:* During the year, the Vice President of Finance, who was previously responsible for filing these reports, was terminated. Responsibilities were transferred to other STEPS personnel in collaboration with external consultants. In an effort to make the reports as accurate as possible, the reports were not filed while the new personnel reviewed the financial activity.

*Effect:* The absence of timely report filing resulted in STEPS not being in compliance with reporting requirements of the Head Start grant. There are no questioned costs as a result of failing to meet this requirement.

*Recommendation:* Management should record and review financial activity in a timely manner to allow for the reports to be filed in an accurate and timely fashion.

*Views of Responsible Officials and Planned Corrective Action:* Management agrees with the auditor’s recommendation, and the following action will be taken to improve the situation. In the future, we will ensure that financial activity is recorded and reports are completed in a timely manner. Additionally, we will work with the funding source to rectify the system award issue and file the referenced reports as soon as possible.

**Section IV – Corrective Action Plan**

**Finding 2022-001**

Reporting

**Views of Responsible Officials and Corrective Action:**

Management agrees with the auditor’s recommendation, and the following action will be taken to improve the situation. In the future, we will ensure that financial activity is recorded and reports are completed in a timely manner. Additionally, we will work with the funding source to rectify the system award issue and file the referenced reports as soon as possible.

**Name of Responsible Person:** Sharon Harrup, President & CEO

**Name of Contact:** Sharon Harrup, President and CEO

**Projected Implementation Date:** As soon as possible







**STEPS, INC.**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2022**

No reportable prior year findings noted.

